

## Message Text

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INFO OCT-01 ISO-00 IO-10 L-02 SP-02 AID-05 EB-07 NSC-05

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8942

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C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 4643

PASS TREASURY, FRB, AND CEA

E.O. 11652: ADS, DECLASSIFY JANUARY 1, 1978

TAGS: EFIN, EEC

SUBJECT: EC FINANCE COUNCIL ADOPTS MONETARY COMMITTEE REPORT  
ON ISSUES FOR THE JUNE IMF INTERIM COMMITTEE MEETING

REF: A) BONN 8203

B) EC BRUSSELS 4519

C) EC BRUSSELS 3680

D) EC BRUSSELS 3437

1. SUMMARY : THE EC FINANCE MINISTERS ADOPTED A REPORT  
WHICH SETS FORTH THE VARIOUS EC MEMBER STATES POSITION ON  
ISSUES BEFORE THE IMF INTERIM COMMITTEE MEETING ON JUNE 10-11.  
AS INDICATED IN REF A, FRENCH FINANCE MINISTER FOURCADE REFUSED  
TO DISCUSS A NUMBER OF ISSUES ON WHICH THE GOF DISAGREES WITH  
THE OTHER MEMBER STATES. THE EC HAS ADOPTED  
A UNIFIED POSITION ON THE ALLOCATION OF IMF QUOTAS AND WITH  
THE EXCEPTION OF FRANCE THE MEMBER STATES AGREE ON THE  
MAIN ELEMENTS OF PROPOSALS ON GOLD AND EXCHANGE RATE  
ARRANGEMENTS. OFFICIALS HERE SAY THE EC IS NOT  
PREPARED TO COMPROMISE ON ITS BASIC POSITION AND  
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CONSEQUENTLY BELIEVE THE INTERIM COMMITTEE MAY FAIL

TO REACH AGREEMENT. THIS MESSAGE REPORTS ON THE HIGHLIGHTS OF THE MONETARY COMMITTEE'S REPORTS, AS NOTED AND ACCEPTED BY THE COUNCIL. END SUMMARY.

2. IMF QUOTA ALLOCATION: THE REPORT STATES THAT THE EC MEMBER STATES AGREE THAT QUOTA DISTRIBUTION AMONG INDUSTRIALIZED COUNTRIES SHOULD BE BASED ON THE BRETTON WOODS FORMULAS, AS SET FORTH IN REF D. THE EC CANNOT ACCEPT THE US POSITION WHICH IMPLIES SPECIAL TREATMENT OF THE US QUOTA. THE US SHOULD PARTICIPATE IN THE ADJUSTMENT OF RELATIVE POSITIONS RESULTING FROM PERIODIC QUOTA REVIEWS BASED ON THE BRETTON WOODS FORMULAS AND IN THE SPECIAL REDUCTION OF INDUSTRIALIZED COUNTRIES' SHARES REQUIRED BY THE DOUBLING OF OPEC SHARES. THE ORIGINAL DRAFT OF THE REPORT INCLUDED THE FOLLOWING: " REFUSAL ON THE PART OF THE US TO ACCEPT THIS PROCEDURE WOULD DESTROY THE POLITICAL BASIS FOR AN OVERALL AGREEMENT AND PARTICULARLY FOR A DOUBLING OF THE OPEC QUOTAS." THE GERMANS INSISTED THAT THIS STATEMENT BE DELETED OVER THE OBJECTION OF THE FRENCH. COMMISSION OFFICIALS SAY, NEVERTHELESS, THAT ALL OF THE NINE CONTINUE TO SUPPORT IN PRINCIPLE THIS STATEMENT.

3. GOLD: EIGHT MEMBER STATES FAVOR INCLUDING A CLAUSE IN THE AMENDED ARTICLES OF AGREEMENT TO THE EFFECT THAT MEMBER COUNTRIES WILL COLLABORATE WITH THE IMF AND OTHER MEMBER COUNTRIES ON GOLD POLICIES. ITALY, BELGIUM, DENMARK AND THE NETHERLANDS BELIEVE SUCH COLLABORATION SHOULD BE THE MAIN OBJECT OF REFORM AND SDRS SHOULD BE ONE THE MAIN RESERVE ASSET AND GOLD AND NATIONAL CURRENCIES SHOULD BE PHASED OUT OF THE SYSTEM. FRANCE, HOWEVER, BELIEVES IMF MEMBERS SHOULD BE FREE TO DEAL IN GOLD AND THE IMF ARTICLES SHOULD NOT DEAL WITH THIS PROVISION.

A. EIGHT OF THE EC CONTINUE TO FAVOR INCLUDING AN ENABLING PROVISION TO EMPOWER THE IMF TO SELL ITS GOLD HOLDINGS TO CENTRAL BANKS OR IN THE MARKET AND TO BUY GOLD FROM CENTRAL BANKS. THE IMF WOULD ALSO BE EMPOWERED TO RETURN PART OR ALL OF ITS GOLD HOLDINGS TO ITS MEMBERS. MOST FAVORED USING A QUAL-CONFIDENTIAL

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IFIED MAJORITY OF 85 PERCENT OF THE VOTING POWER FOR THESE DECISIONS BUT BELGIUM AND DENMARK WANTED TO USE A SPECIAL MAJORITY OF 90 PERCENT.

B. FRANCE BELIEVE THERE SHOULD BE NO MENTION OF GOLD IN THE IMF STATUTES. GOLD SHOULD BE TREATED AS ANY OTHER COMMODITY AND PRESENT FUND HOLDINGS SHOULD BE RETURNED TO MEMBERS AT THE ORIGINAL PRICE. ∴ THE EC DISAGREES WITH THE US PROPOSAL THAT SHOULD IMF

GOLD BE SOLD, THE PROFIT FROM THESE  
SLAES MIGHT BE PLACED IN A SPECIAL ACCOUNT FOR USE  
OUTSIDE THE IMF. INSTEAD, THE EC SUPPORTS THE IMF  
STAFF PROPOSAL TO USE THESE PROFITS WITHIN THE FUND  
FOR OPERATIONS CONSISTENT WITH THE IMF'S PURPOSES.  
AS A COMPROMISE, THE EC WOULD ACCEPT AN ENABLING  
CLASUE TO THE EFFECT THAT THE USE OF SUCH PROFITS  
WOULD BE DECIDED ON AN AD HOC BASIS AND BY A QUALI-  
FIED MAJORITY OF 85 PERCENT.

4. EXCHANGE RATE ARRANGEMENTS: EIGHT MEMBER STATES  
SUPPORT A NEW DRAFT OF ARTICLE IV DEALING WITH EX-  
CHANGE RATE ARRANGEMENTS. THE PRIME OBJECTIVE SHOULD  
BE TO PROMOTE EXCHANGE STABILITY AND TO MAINTAIN  
ORDERLY EXCHANGE ARRANGEMENTS. THE IMF SHOULD DECIDE  
WHEN PAR VALUES MAY AGAIN BE ESTABLISHED. ONCE THIS  
DECISION IS TAKEN, THE EC IS CONSIDERING TWO ALTERNA-  
TIVES: 1) EACH MEMBER IS FREE TO PROPOE A NEW PAR  
VALUE, OR 2) EACH MEMBER IS UNDER THE OBLIGATION TO  
DO SO UNLESS CERTAIN CONDITIONS PREVAIL. THERE ARE  
ALSO TWO ALTERNATIVES TO TERMINATING PAR VALUES:  
1) A MEMBER ONLY NEEDS TO NOTIFY THE IMF OF ITS  
INTENTION TO TERMINATE; OR 2) TERMINATION IS  
CONDITIONAL ON THE IMF AUTHORIZING IT.

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PASS TREASURY, FRB, AND CEA

5. THE EC IS DIVIDED ON THE ABOVE ALTERNATIVES. (THE FIRST OF EACH OF THESE TWO SETS OF ALTERNATIVES IS CONSIDERED THE "SOFT" POSITION.) THE FRG, ITALY AND THE UK FAVOR THE "SOFT" ALTERNATIVES AS REALISTIC AND PRACTICAL; THEY WOULD ALSO AVOID HAVING TO ACCEPT A LARGE NUMBER OF EXCEPTIONS. THE UK AND ITALY WOULD FAVOR EXPLICIT RECOGNITION THAT MEMBERS' CURRENCIES COULD FLOAT DURING THE INTERIM BETWEEN TERMINATING A PAR VALUE AND ADOPTING A NEW ONE. BELGIUM, THE NETHERLANDS AND DENMARK SUPPORT THE "HARD" ALTERNATIVES ON THE GROUNDS THAT DISCIPLINE AND CONSTRAINT ARE INDISPENSABLE TO EXCHANGE RATE STABILITY. FRANCE, HOWEVER, OPPOSES A REVISION OF ARTICLE IV, PARTICULARLY THE PROPOSAL FOR AN INTERIM PERIOD DURING WHICH NO PAR VALUES OR CENTRAL RATES WOULD APPLY. IT FEARS THAT THIS WOULD LEAD TO "PROTRACTED GENERALIZED FLOATING".

6. REGIONAL EXCHANGE RATE ARRANGEMENTS: BELGIUM, THE NETHERLANDS AND DENMARK FAVOR INCLUDING THE IMF STAFF'S NEW TEXT DEALING WITH CENTRAL RATE ARRANGEMENTS (I.E., THE SNAKE) DURING THE INTERIM PERIOD  
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BACause THEY BELIEVE THIS PROPOSAL WOULD PROMOTE THE RE-ESTABLISHMENT OF PAR VALUES. THE NETHERLANDS AND BELGIUM WOULD EVEN ACCEPT THE OBLIGATION TO CONSULT WITH THE IMF ON ANY CHANGE IN THE PAR VALUE OR CENTRAL RATE ADOPTED BY A REGIONAL GROUP BECAUSE THIS WOULD STRENGTHEN THE REGION'S ROLE IN SEEKING TO RESTORE A GENERAL PAR VALUE SYSTEM. THE FRG, UK AND ITALY, HOWEVER, OPPOSED THE IMF STAFF'S PROPOSAL BECAUSE THE PARTICIPANTS IN THESE ARRANGEMENTS VOLUNTARILY ACCEPT THE RULES OF THE SNAKE. THESE RULES SHOULD CONSEQUENTLY NEIGHER BE RECOGNIZED BY OR SUBMITTED TO THE IMF.

7. GUIDELINES ON FLOATING: THE EC OPPOSES INCLUDING THE GUIDELINES FOR FLOATING, WHICH WERE AGREED UPON BY THE IMF BOARD, IN THE AMENDED STATUTES. EIGHT MEMBER STATES, HOWEVER, WANT TO INCLUDE A REFERENCE TO THE GUIDELINES IN THE STATUTES. FRANCE IS OPPOSED AND, INSTEAD, WANTS TO CONSIDER FLOATING AS AN EXCEPTIONAL CASE NOT TO BE SETTLED ON THE BASIS OF PRE-ESTABLISHED RULES BUT ON THE BASIS OF IMF AD HOC DECISIONS SETTING FORTH THE CONDITIONS UNDER WHICH INDIVIDUAL CASES OF FLOATING WOULD BE AUTHORIZED.

8. GENERAL AND SDR ACCOUNTS: THE EC AGREES WITH THE IMF STAFF'S PROPOSAL THAT SDRS COULD BE USED TO PAY FOR THE 25 PERCENT RESERVE TRANCHE OF A QUOTA INCREASE. PAYMENT COULD ALSO BE MADE IN WHOLE OR PART IN CURRENCIES SPECIFIED BY THE IMF OR IN THE MEMBER'S OWN CURRENCY. NO AUTOMATIC DRAWING FACILITY SOULD BE MADE AVAILABLE TO COUNTRIES FOR THAT PORTION WHICH IS PAID IN NATIONAL CURRENCIES. THE FRG, BELGIUM, DENMARK AND THE NETHERLANDS FAVORED MAINTENANCE OF THE PRESENT PROVISIONS CONCERNING SDR ALLOCATIONS, ACCEPTANCE LIMITS AND RECONSTITUTION OBLIGATIONS. THE UK AND ITALY WOULD LIKE TO DELETE THEM. FRANCE DID NOT STATE ITS POSITION ON THESE PROVISIONS.

9. INTEREST RATE SUBSIDY FOR MSGA: THE EC IS READY TO CONTRIBUTE ON A REASONABLE BASIS TO THE CONFIDENTIAL

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PROPOSED OIL FACILITY'S INTEREST RATE SUBSIDY FOR THE MOST SERIOUSLY AFFECTED COUNTRIES IF OTHER COUNTRIES ALSO DO SO.

10. CONCLUSION: THE EC BELIEVES THE FOLLOWING POINTS ARE ESSENTIAL FOR AGREEMENT: 1) QUOTA REVIEW, 2) GOLD PROVISIONS, AND 3) EXCHANGE RATE ARRANGEMENTS. EIGHT MEMBER STATES BELIEVE NO CONCESSIONS SHOULD BE MADE ON THESE THREE POINTS, ESPECIALLY ON THE ALLOCATION OF QUOTA INCREASES. ONE MEMBER (UNSPECIFIED) BELIEVES TOO MUCH TIME HAS ALREADY BEEN SPENT ON REFORM AND THE PROSPECTS FOR A COMPROMISE ON QUOTAS AND AMENDMENTS ARE NOW GOOD. THIS COUNTRY BELIEVES APPROVAL OF AN OVERALL PACKAGE IS POSSIBLE WITH ONLY SMALL CONCESSIONS ON QUOTAS. THIS WOULD REQUIRE, HOWEVER, WITHDRAWAL OF THE MINORITY POSITION WITHIN THE EC ON AMENDMENTS TO THE IMF STATUTES, ESPECIALLY ON GOLD AND THE EXCHANGE RATE ARRANGEMENTS.

11. IMF BOARD SEATS: ALTHOUGH IT WAS NOT INCLUDED IN THE MONETARY COMMITTEE'S REPORT, THE NINE HAVE ALSO AGREED IN PRINCIPLE TO MAINTIAN THE CURRENT NUMBER OF BOARD SEATS AT 20. THE NENE, HOWEVER, AGREE TO PRESERVE IN ALL CASES THE CURRENT NUMBER OF EC SEATS. (BELGIUM AND DUTCH SEATS ARE IN JEOPARDY SHOULD THE EC PROPOSED QUOTA ALLOCATION TO MEMBER STATES BE REDUCED FURTHER.) THE EC IS WILLING TO HAVE THE BOARD ACCEPT ONE OR MORE ADDITIONAL SEATS ON A TEMPORARY AND, IF NECESSARY, ON A PERMANENT BASIS, TO ACHIEVE THIS RESULT.

12. COMMENT: AFTER THE RECENT EXCHANGE OF VIEWS IN

THE WP-3 AND G10 AND G-5 DEPUTIES MEETINGS IN  
PARIS, EC COMMISSION AND PERM DEL FINANCIAL OFFICIALS  
ARE NOT HOPEFUL THAT THE CURRENT IMPASSE ON THE IMF  
PROPOSALS CAN BE BROKEN. THESE OFFICIALS MAINTIAN  
THAT THE EC HAS A UNIFIED POSITION, ESTPECIALLY ON  
ITS PROPOSED ALLOCATION IF IMF QUOTAS. THESE OFFI-  
CIALS SAY THE MEMBER STATES ARE PREPARED TO BIDE  
THEIR TIME. THEY WILL NOT BE RUSHED INTO A COM-  
PROMISE AT THE INTERIM COMMITTEE MEETING IN JUNE BECAUSE  
THESE PROPOSALS ARE NOT OF OVERRIDING IMPORTANCE.  
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SHOULD THE INTERIM  
COMMITTEE FAIL TO REACH A DECISON, THEY CLAIM THE  
BLAME FOR BLOCKING THE PROPOSED OPEC QUOTA INCREASE  
WILL NOT FALL ON THE EC. END COMMENT.

13. COPIES OF THE MONETARY COMMITTEE'S REPORT HAVE  
BEEN SENT TO INTERESTED WASHINGTON AGENCIES, FOR OF-  
FICIAL USE ONLY. GREENWALD

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## Message Attributes

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